2012 ANNUAL REPORT

Vintners Quality Alliance Ontario

Setting the standard for Ontario's wines of origin

Officers

Ken Douglas (6)
President and Chair
(elected from Thirteenth Street Winery)

Brian Schmidt (7)
Vice-Chair
(elected from Vineland Estates Winery)

Paul Speck (6)
Secretary
(elected from Henry of Pelham Family Estate Winery)

Newman Smith (6)
Treasurer
(elected from Strewn Wines)

Staff and Statutory Appointments

Laurie Macdonald
Executive Director

Barbara Dodds
Office Manager (VQA Inspector)

Susan Piovesan
Compliance and Information Officer (VQA Inspector)

Directors

Greg Berti (6)
Past-Chair

Jim Clark (5)
(elected from Colio Estates Winery)

Tony Elenis (5)
(appointed from Ontario Restaurant, Hotel and Motel Association)

Kevin Watson (5)
(appointed from Grape Growers of Ontario)

Norman Hardie (6)
(elected from Hardie Wines)

Keith Bown (7)
(elected from Vincor Canada)

Bill Redelmeier (6)
(elected from Southbrook Vineyards)

Mary Shenstone (7)
(appointed from Ontario Ministry of Intergovernmental Affairs)

Attendance at Board meetings:
Attendance at Board meetings: Seven Board meetings were held in 2011-2012. The number of Board meetings each Director attended is indicated beside their name.

Who We Are

VQA Ontario is Ontario's wine authority that manages Ontario's wine appellation system as defined under the VQA Act of Ontario.

It exercises delegated authority from the Province of Ontario to ensure label integrity and allow consumers to identify wines of origin made from 100% Ontario grapes.

VQA Ontario is committed to working with and on behalf of consumers and its stakeholders in industry and government to promote a better awareness of Ontario's wine regions and wines of origin.

Vision

Consumers will use VQA appellations as their guide to buying authentic wines of origin and quality.

Mission:

Effectively manage the appellation system while encouraging continuous improvements in wine quality. Communicate the VQA assurance of origin and authenticity to consumers.

Strategic goals:

Origin, quality, authenticity.

Organization Values:

Transparency and Fairness

VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

Responsiveness and Communications

VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

Firmness and Responsibility

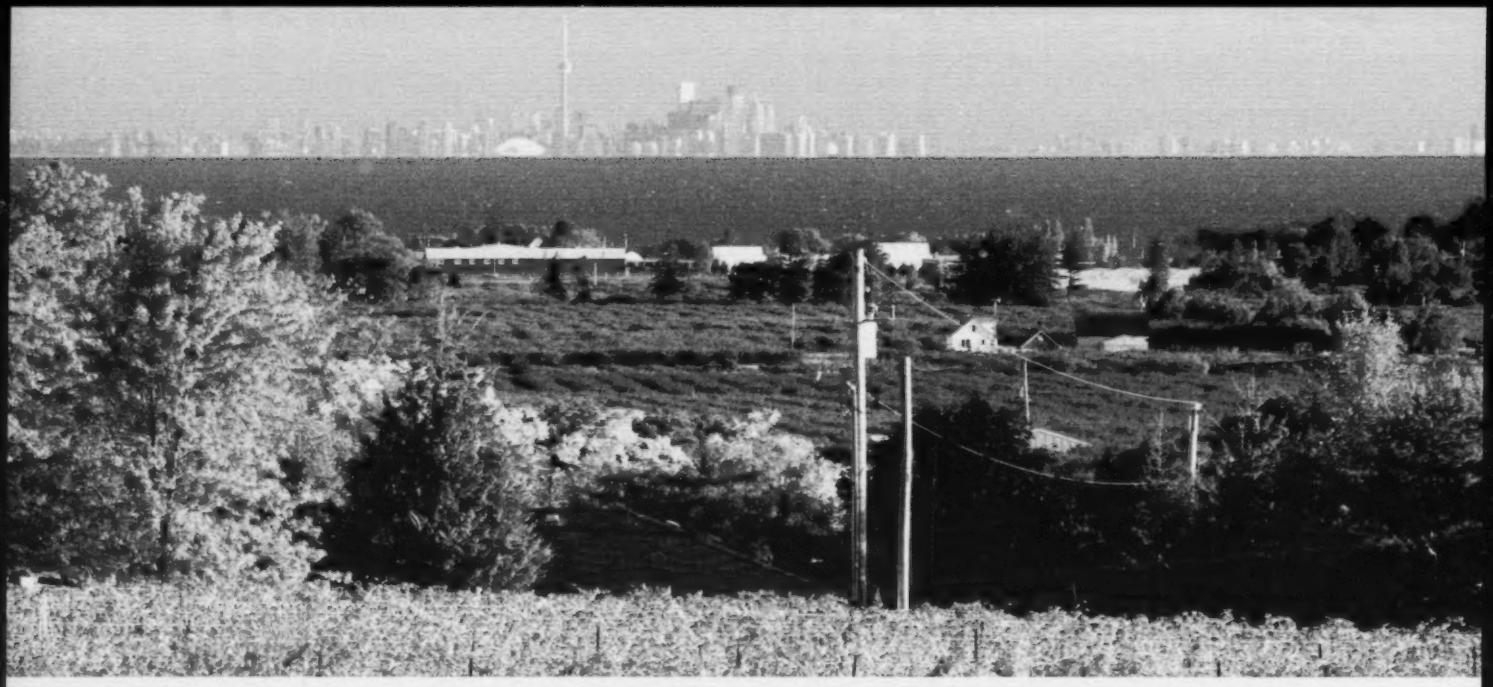
VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

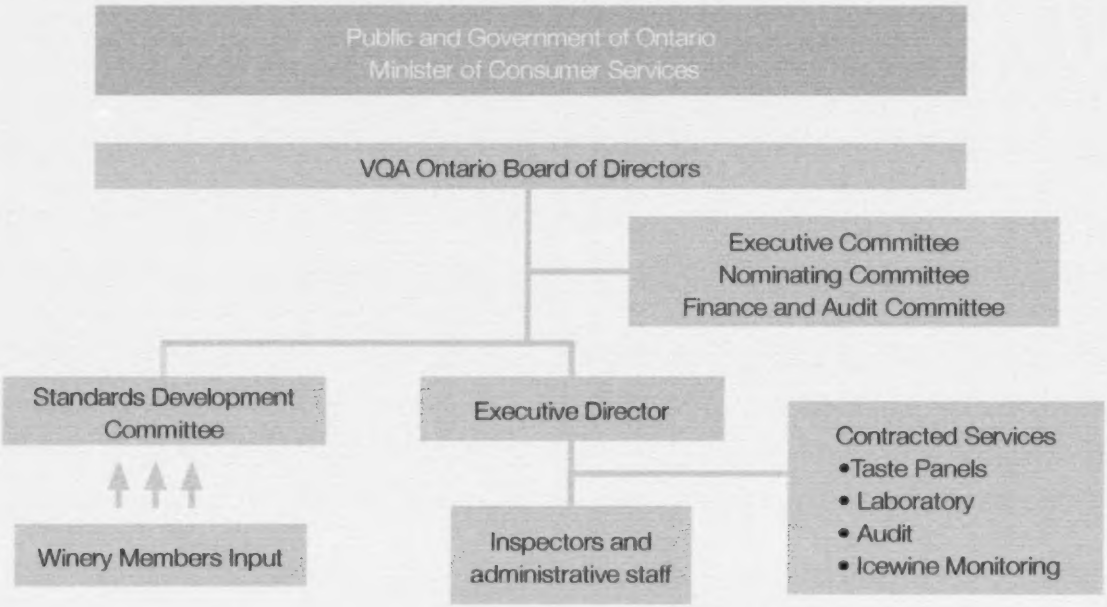
Accountability

VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

Effectiveness

VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.




Public and Government of Ontario
Minister of Consumer Services
VQA Ontario Board of Directors
Executive Committee
Nominating Committee
Finance and Audit Committee
Standards Development Committee
Executive Director
Contracted Services
•Taste Panels
• Laboratory
• Audit
• Icewine Monitoring
Winery Members Input
Inspectors and administrative staff

Message from the Chair

The past year was consumed with implementing regulation changes identified by wineries and by a strategic review completed in 2010/11. Much of this refined the ongoing and important discussion of how much and what exactly should be regulated. Within our core framework of origin, quality and authenticity, it is important that the appellation system remains responsive and relevant as the industry and marketplace evolves. Origin is at the heart of VQA and is increasingly important to consumers and wineries in making choices about wine. Quality is another touchstone for every consumer. Together with transparency and reliability in how wines are presented and labelled, these elements form the basis for the VQA appellation system. We are working to strike the right balance that meets consumer expectations and allows industry to prosper while providing meaning and integrity to the appellation system.

Over the past year and a half, VQA Ontario has systematically worked through regulation changes to keep VQA up to date. We appreciate the feedback and suggestions that many wineries and other stakeholders have provided as the Board has evaluated and refined proposals so they best serve the needs and interests of wine consumers, the wine trade and industry. Many changes are relatively minor and simply reflect modern practices, but a few are more fundamental and will guide the future identity of VQA and VQA wines.

A move to make the VQA logo optional on packaging in return for a much larger type size for the appellation of origin is part of a series of labelling changes aimed at raising the profile and recognition of Ontario's appellations. Other regulatory and policy changes related to label integrity will support more emphasis on wine origin in comparison to the VQA logo, and include tighter regulation on the ancillary use of appellation terms to avoid confusion and to ensure that regulated terms are used clearly.

In 2011 we concluded our evaluation of expanding packaging options beyond traditional glass bottles and recommended a regulation change to government to allow alternative packaging for wines designated with the Ontario appellation. With the change, wineries will be able to make appropriate individual choices about packaging to suit their businesses and target consumers. This reflects a growing confidence that the VQA marketplace has matured to the point where prescriptive packaging regulations are not needed.

We continue to participate in the Ontario Wine Marketing Program to leverage our message about origin and Ontario's wine appellations. Consumer research conducted last year showed that familiarity with VQA is fairly high, with 73% of wine consumers indicating they are familiar with VQA. Two-thirds of those who said they were familiar with VQA correctly identified quality and/or origin as the major feature of the designation in a response to an open ended unaided question. The survey also gauged consumer familiarity with appellations and sub-appellations in comparison with a selection of foreign appellations and found them to be similar. These findings are encouraging and will be an important benchmark for VQA Ontario as we try to increase the prominence of origin as a feature of VQA wines and educate consumers about our appellations.

All of our projects this year are part of the active management of the appellation system to support consumer confidence and an efficient, relevant system for the wine industry. I hope all of our stakeholders will continue to help us achieve our vision of appellation, quality and authenticity through their vigorous engagement in the issues that face VQA Ontario.

This year completes my tenure as Chair of the Board of Directors and I am grateful for the opportunity I have had to work with a capable and committed group of colleagues. We've dealt with a few thorny issues and many changes in the industry during this time and VQA Ontario has worked hard to remain inclusive of all stakeholders and focused on its goals to support Ontario's wines of origin and to serve the broader public interest. I will look forward to serving as Past-Chair and continuing to play a role in VQA Ontario into the future.

I want to thank each of my fellow Directors for their support and insights and also give a special thank you to Walter Schmoranz who stepped down from the Board in January 2012 after over 10 years of continuous service. Many others deserve mention – winery volunteers, LCBO and CCOVI staff, VQAO staff and government – all who give us feedback, valuable advice and perform many duties that are essential to the organization. Thank you to all.

Ken Douglas
President and Chair

Vintage report 2011

Niagara Peninsula – Lake Erie North Shore – Pelee Island – Prince Edward County

Conditions

Weather conditions in winter and early spring 2011 were relatively normal across southern Ontario and the wine growing regions. A few anomalies, including higher precipitation in southwestern Ontario and drier conditions in Prince Edward County were observed. Temperatures dipped slightly below normal in January and some minor winter damage was reported but 2011 began with a normal outlook for the grape crop.

April and May saw a number of weather systems bringing rain to most areas of southern Ontario and a few bouts of severe weather. In the wine regions, precipitation was higher than normal and sunshine hours were lower than normal well into the beginning of June. Although there were no late frosts to disturb the beginning of the season, bud burst was late and by early summer, the crop looked like it was starting the main growing season a week or two behind schedule.

Sporadic storms continued into June, but precipitation levels returned to normal in the wine regions and Niagara was slightly drier. The season began to turnaround with progressively better weather by mid June and July brought sunshine, warmth and beautiful weather for grape growers.

Temperatures hit record levels in many areas, and monthly mean temperatures were 2 to 3 degrees above normal across southern Ontario. July was the driest in many years in the Niagara Peninsula where rain came in sporadic downpours, often leaving some of the Peninsula dry and providing just enough moisture to guard against drought. The various sub-appellations in Niagara experienced over 30° C temperatures from 16-20 days of the month, breaking several temperature records. Other regions saw similar hot conditions, but with more rain in Lake Erie North Shore and Pelee Island and normal precipitation for Prince Edward County. By the end of July, all regions were back on

track towards a normal progression for the growing season. August continued to be warm and slightly drier in both Niagara and Prince Edward County, and warm and slightly wetter in Southwestern Ontario, but nothing like the extremes of July.

Harvest

Harvest began for Sparkling wines in late August and early September and grapes were generally slightly ahead of the normal ripening schedule or right on target. Conditions varied significantly between the main growing regions in September. Temperatures in the Niagara Peninsula continued to be above normal but September rains made harvest scheduling difficult and kept wineries very busy. In Lake Erie North Shore and Pelee Island, it was both cooler and wetter, challenging wineries with disease pressures in the vineyard and slowing the last stages of ripening. September conditions in Prince Edward County were more favourable, with average temperatures a few degrees above normal and less than normal rainfall.

With the warm summer, most of the earlier ripening varieties were brought in early and in good condition. Wineries were very busy in late September and early October managing the challenges of a rainy harvest season and precision in picking decisions was important this year. Temperatures stayed mild into November and no early frosts appeared to complicate the end of the harvest.

Registrations for Icewine and Late Harvest grapes show that juice production is likely to almost double from 2010 but is still substantially lower than the records near 7000 tonnes set through 2006 and 2007. A total of 3650 tonnes were left hanging for use in Icewine and Late Harvest wines for the 2011 vintage, resulting in 610,600 litres of Icewine juice and 126,600 litres of Late Harvest juice.

Wine Expectations

2011 is shaping up to be an interesting vintage and certainly one where grape growers and winemakers were kept on their toes by the weather. Worries at the beginning of the growing season were countered by the warm summer and a rapid catch up to maturity. Worries at the end of the season were mostly allayed by growers and winemakers through good decisions on vineyard management and timely intervention with the harvest. Although it was a stressful season, brix levels indicate that most grapes reached optimum ripeness, suggesting good potential for the resulting wines.

Operations

Executive Director's Report

The staff organization continues to be occupied with the management and execution of VQA Ontario's core business operations. Activities such as wine testing, label review, audit and enforcement remain a major focus as new wineries continue to join VQA Ontario and the number of VQA brands continues to increase. The number of participating wineries has increased from 123 to 131 and almost 1600 wines were submitted for evaluation. While the number of VQA wineries continues to increase, this past year saw 5 wineries resign and 13 new wineries join, a change from past years where there was growth with very little attrition. Production volume represented by all wines approved for VQA status grew just under 4% from 2.3 to 2.4 million cases.

Comprehensive data is available in other sections of this report and on the appellation pages of VQA Ontario's website and we encourage you to browse through these reports and contact us with suggestions for data that could be of interest.

A full agenda of regulatory review and the implementation of several regulatory changes was pursued in 2011/12. The regulation change process involved consultations, research, revisions, drafting and implementation plans and this process will continue through 2012 as the changes become law. With the higher than normal number of regulatory changes this year, and a few complex topics, significant efforts were directed at supporting this process. We have been working closely with the Ministry of Consumer Services , and their efforts and support in processing our regulation change requests are much appreciated.

While VQA Ontario is not part of the provincial government, it provides services in the public sphere and is often affected by government decisions and policies. The economy, election and subsequent recommendations of the Drummond Report have kept us busy keeping abreast of how these changes may affect VQA Ontario. Budget reductions will not impact VQA Ontario directly since it does not receive government funds, but

they may affect the economy, VQA wine sales and the wine industry and ultimately VQA Ontario's revenues. We are mindful of the need for austerity and continue to look for ways to ensure operations are as efficient and cost effective as possible.

Ken Douglas, Chair of VQA Ontario's Board of Directors is moving out of the role of Chair of the Board in the coming year. Ken has diligently led the Board through a wide range of issues and lent his considerable expertise to the organization. I have worked closely with him over the past three years and I know we will continue to benefit from his experience and insights as he continues on the Board as Past-Chair. It has been a pleasure to work alongside Ken and I extend my gratitude for his service and that of the Board and all those who work for and with VQA Ontario.

I continue to be impressed with the commitment of the wine industry to support the VQA system, both with volunteer contributions to the running of the organization and through striving to make great, authentic wines of origin that are the bedrock of VQA's reputation. Your expertise and willingness to share are invaluable. Together with our staff, contractors and many others, this is what continues to make VQA Ontario work.

L. Macdonald

Laurie Macdonald
Executive Director

Goals and Activities

Goals

Manage Ontario's wine appellation system with a focus on origin, quality and authenticity

Promote recognition and understanding of the VQA appellation system

Protect consumers through label integrity

Provide a strong transparent and credible framework for the production and labelling of wines of origin

Activity Highlights

13 new member wineries
95% overall success rate for wine approval applications
459 export certificates issued
330 audits and inspections conducted
8 compliance orders issued
4 charges laid

Membership

131 wineries were registered as participants in the VQA program at the end of March 2012. These included 5 large wineries (sales of over 750,000 litres of VQA wines), 19 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 107 small wineries (sales of up to 100,000 litres of VQA wines). 13 new wineries joined the program and 5 resigned or merged with other wineries.

Product Approvals

1578 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review before being certified as a wine of origin. Approvals were granted for 1500 wines, and denied for 78.

Quality

Maintaining minimum quality standards continues to be an important part of VQA Ontario's mandate. In addition to enforcing standards, VQA Ontario runs two programs to support and encourage wineries to pursue the best quality outcomes possible and exceed minimum standards. Winemakers Forums, held in all wine regions, are a venue where winemakers share experiences and best practices in an informal setting and discuss techniques that are especially successful in Ontario's unique growing conditions. The second program provides an analysis of outcomes at the VQA tasting panel that allows wineries to benchmark themselves and gain insight into how performance might be improved. These two programs often work together with information from the tasting analysis providing topics for discussion at

the Winemakers Forum. VQA Ontario continues to enjoy a strong partnership with the Cool Climate Oenology and Viticulture Institute that sees it contribute expertise to VQA Ontario's programs.

Inspections and Audits

164 routine audits were conducted to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to an on-site audit on a 6 to 8 month interval, depending on their compliance record. In addition, 166 random inspections were completed at the retail level, focused on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 67 cases. The majority of issues addressed were minor in nature. VQA Ontario also conducted a review of winery websites to confirm that online advertising and sales were compliant with the VQA Act.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 8 compliance orders in relation to a winery using regulated terms without approval or failing to take corrective action within a stipulated time. Four charges were laid under the VQA Act in 2011-2012 involving a single winery and related to using VQA terms without approval.

Regulatory Review

Regulatory amendments related to grape varieties, effervescent wines, brix requirements, varietal labelling and sparkling Icewine were completed. Further amendments on packaging, VQA logo requirements, aromatic sparkling wines, multi-appellation labelling and the Pelee Island appellation were recommended to government and are pending approval.

Trade and Export Development

Along with stakeholders from industry and government, VQA Ontario continued to participate in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets. VQA Ontario issues certificates as required by the European Union as a condition of access to member states. Major upgrades were made to the administrative processing of European export certificates and 459 were issued last year.

Appellation Awareness

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA appellations of origin, quality standards and the value of a regulated appellation system.

Statistics

All statistics are for the period of April 1, 2011 to March 31, 2012. These figures are based on wines approved during this period and are calculated using volumes declared at the time of submission for approval. Reported volumes may reflect wines that have not yet been released but will not reflect wines that may be finished but not yet submitted for approval.

Production summary

Wine Category	# of Wines	Volume (9L cases)	Change from last year (volume)	Estimated grape tonnage
Table Wine	1316	2,225,144	+4%	27600
Icewine	114	97,354	+27%	5000
Late Harvest	21	11,114	-17%	200
Sparkling	42	49,419	-15%	600
Other	7	1,102	-35%	10
Total	**1500**	**2,384,133**	**+4%**	**33410**

Regional and Varietal Production

This table includes all wines labelled with the stated appellation on the principal display panel. These wines must contain at least 85% content from the stated appellation. Wines labelled with one of the ten sub-appellations of the Niagara Peninsula must contain 100% content from the stated sub-appellation.

Appellations

As declared on label	Cases (9L)	% of all VQA wines
Ontario	677,933	28%
Niagara Peninsula	1,404,975	59%
Sub-regions of Niagara	253,272	11%
Lake Erie North Shore and Pelee Island	31,261	1%
Prince Edward County	16,692	1%

Interest in grape growing and winemaking continues to expand in areas outside of VQA designated wine regions. Grapes grown in central Ontario ranging from the London-Norfolk through Grey-Bruce and across Toronto to Trenton corridor are currently used in some Ontario designated VQA wines.

Grape varieties used in all VQA wines

Variety	% of total production
Chardonnay	18%
Riesling	14%
Cabernet Franc	11%
Merlot	11%
Vidal Blanc	8%
Cabernet Sauvignon	7%
Sauvignon Blanc	6%
Pinot Noir	5%
Pinot Gris	5%
Baco Noir	5%
Others	10%

White grape varieties used in all VQA wines – 56%

Red grape varieties used in all VQA wines – 44%

Table wines

The table wine category includes white, red and rosé wines. The overall production of table wine increased by 4% last year, after a 25% increase in the previous year. Wines labelled with a grape variety or varieties still dominate the table wine category, accounting for 90% of table wines, but non-varietal blends increased slightly from last year from 8% to 10%. The percentage of reds also increased slightly compared to whites.

Table Wines

Colour		Litres	Cases (9L)
White (54%)	Varietal	10,376,947	1,152,994
	Non-varietal	517,881	57,542
	Total white	**10,894,828**	**1,210,536**
Red (43%)	Varietal	7,515,841	835,093
	Non-varietal	1,125,303	125,034
	Total red	**8,641,144**	**960,127**
Rose (3%)	Varietal	234,363	26,040
	Non-varietal	255,949	28,439
	Total rose	**490,312**	**54,479**

Popular single-varietal table wines

Chardonnay and Riesling continue to be the most popular white varietals by a fairly wide margin. Merlot remains the top red varietal but Baco Noir has increased substantially to become the second most common varietal wine, moving ahead of both Pinot Noir and Cabernet Franc. This may reflect a move to non-varietal labelling for some wines containing Cabernet Franc and Pinot Noir while all wines containing Baco Noir must be varietal wines due to regulations related to hybrid grape content.

Varietal Wines

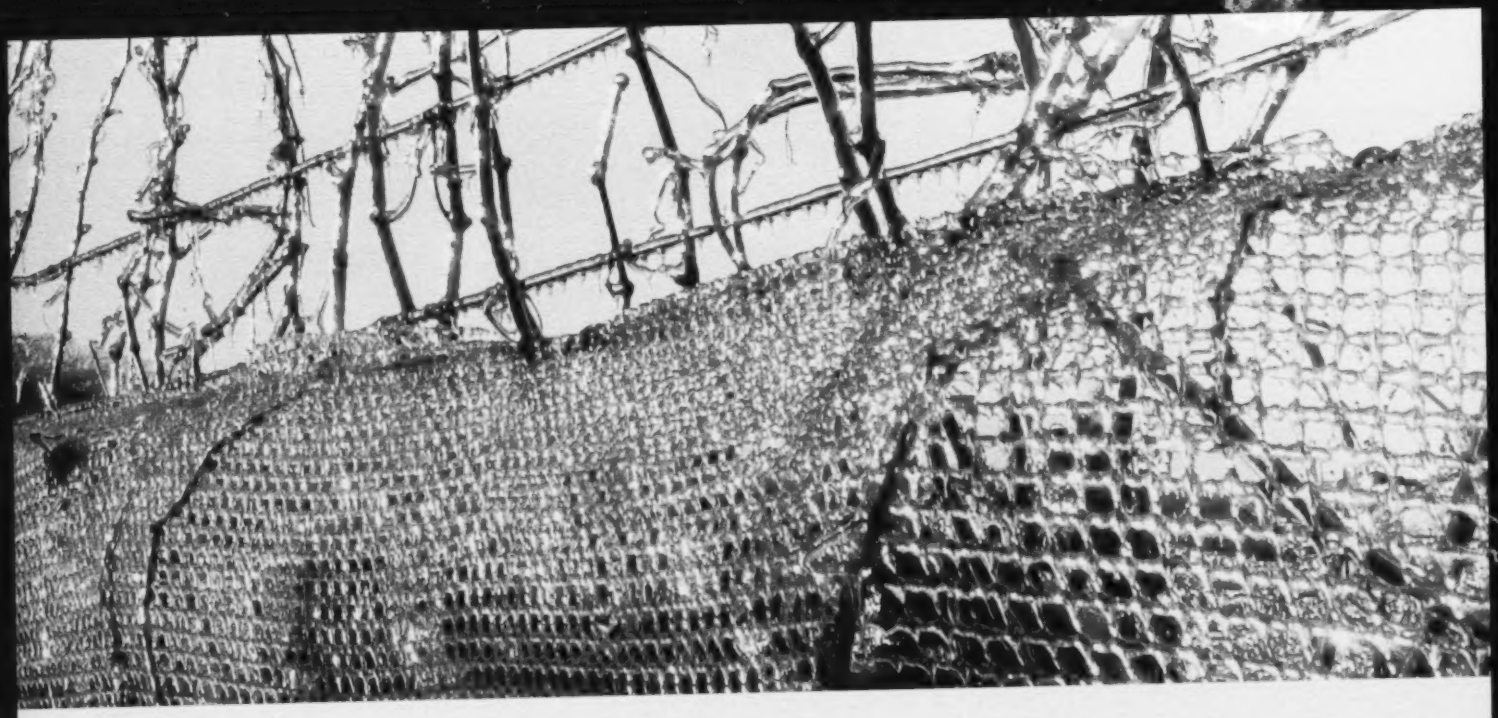
Colour		Litres	Cases (9L)
White	Chardonnay	3,384,669	376,074
	Riesling	1,622,674	180,297
	Sauvignon Blanc	1,038,752	115,417
	Pinot Gris	924,288	102,699
Red	Merlot	1,091,407	121,266
	Baco Noir	959,512	106,612
	Pinot Noir	812,325	90,258
	Cabernet Franc	750,019	83,335

Icewine

Variety	Litres	Cases (9L)
Vidal	561,268	62,363
Cabernet Franc	145,458	16,162
Riesling	133,411	14,823
Others	36,053	4,006
Total	**876,190**	**97,354**

Other Wines

	Litres	Cases (9L)
Late Harvest and Botrytis Affected	100,027	11,114
Fortified and Liqueur wines and Vin de Cure	9,920	1,102
Sparkling wines	444,775	49,419



VQA Ontario Wine Sales

Year ending March 31, 2012

By Volume

	Litres (2012)	Litres (2011)	% Change
Winery Retail	4,598,247	4,479,916	3%
Licensees	3,171,750	2,991,023	6%
LCBO (shipped)	7,320,283	6,750,913	8%
Outside of Ontario and miscellaneous	1,526,725	1,345,218	13%
Total	**16,617,005**	**15,567,070**	**6.7%**

By Retail Value

	Retail value ($) (2012)	Retail value ($) (2011)	% Change
Winery Retail	104,454,154	99,977,816	4%
Licensees	50,010,694	46,802,498	7%
LCBO (shipped)	110,863,400	103,813,774	7%
Outside of Ontario and miscellaneous	43,690,831	37,197,030	17%
Total	**309,019,079**	**287,791,118**	**7.4%**

VQA Wine Testing and Approval Process

Every wine that carries a regulated appellation of origin and the VQA certification has completed a rigorous approval process. Once a wine is finished and ready to bottle it is submitted to VQA Ontario for testing and approval. The evaluation includes taste tests, laboratory tests and label reviews to ensure the wine meets quality standards and is labelled according to VQA regulations. Labelling regulations reserve certain terminology for eligible VQA wines and set standards for declaring origin, varietal content, vintage and other attributes. These regulations ensure consumers are not misled with respect to the wine content. Only after having successfully completed all components of this process can a wine receive approval and be released for sale, using regulated terms and descriptions. A range of inspection and audit programs also verify that underlying standards are met.

Activities

Applications for wine approval evaluated – 1578
Number of wines approved for VQA status – 1500

Performance Measures

Laboratory analysis

Average time to completion – 13 days
% of tests completed within 15 days – 70%
% of tests completed within 21 day target – 98%
Pass rate at Laboratory – 99.4% (final status)

Sensory analysis

Average time to completion – 5 days
% of tests completed within 15 days – 98%
% of tests completed within 21 day target – 99%
Pass rate at sensory panel – 95.8% (final status)

Online query and reporting system uptime - 99% (98% during business hours)

Compliance and Enforcement

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. The regulatory process starts with the monitoring of grape quality at harvest through independent sugar testing, and regular audits and inspections related to wine origin and content, wine making processes, record-keeping, labelling and advertising. Once the wine is finished and submitted for VQA approval, taste tests, laboratory tests and label reviews are completed. Only after having successfully completed this process can a wine receive

approval and be released for sale, using designated terms and descriptions.

Activities

Full on-site audits - 164

Retail store inspections - 166

Random testing of approved wines - 50

Warnings and minor corrective orders issued - 28

Compliance orders issued – 8

Charges laid – 4

Performance Measures

Percentage of audits completed with no issues raised – 82%

Percentage of wines found to be compliant during audits - 99%

Percentage of wines found to be compliant during inspections – 97%

Percentage of wines found to be compliant upon random chemical analysis – 98%

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many potential issues are flagged and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require enforcement action to achieve compliance.

Financial Summary

VQA Ontario is funded by its member wineries through sales levies and fees for service. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its valued assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

Revenue exceeded expenditures by $72,623 for the year ended March 31, 2012. This moves VQA Ontario to a small operating surplus after several years with an operating deficit that was planned to reduce equity to specific target levels and implement a sustainable fee structure. Total revenue was $1,372,300 compared to total expenses of $1,299,677. Net assets carried forward are $529,509, up from $456,886 in 2011. Net assets include restricted funds in the amount of $200,000 that are allocated to a legal contingency fund as well as general operating contingencies.

Revenue for fiscal 2012 was derived primarily from member bottle fees ($808,900) and approval fees ($401,541).

Major components of the approximately $1.3 million in expenses were wine approvals and quality monitoring ($455,674), public education ($250,000) and employee costs ($364,083).

Financial Statements

For the year ended
March 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Vintners Quality Alliance Ontario

Report on the Financial Statements
We have audited the accompanying financial statements of Vintners Quality Alliance Ontario which comprise of the statement of financial position as at March 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Vintners Quality Alliance Ontario as at March 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kopstick Osher

KOPSTICK OSHER
Chartered Accountants, LLP
Licensed Public Accountants

Toronto, Canada
June 6, 2012

Statement of Financial Position

As at March 31, 2012

	2012	2011
ASSETS		
Current		
Cash	$ 193,188	$ 261,089
Investments - Note 3	380,170	221,284
Accounts receivable	86,353	60,216
Prepaid expenses	8,683	8,072
	668,394	550,661
Investments - Note 3	81,799	101,517
Capital - Note 4	44,334	63,134
	$ 794,527	$ 715,312
LIABILITIES		
Current		
Accounts payable and accruals	$ 239,711	$ 243,614
Deferred revenue - Note 5	25,307	14,812
	265,018	258,426
NET ASSETS		
Net assets	529,509	456,886
	$ 794,527	$ 715,312

The accompanying notes form an integral part of these financial statements

APPROVED BY THE BOARD:

Statement of Changes in Net Assets

For the year ended
March 31, 2012

	Invested in capital assets	Internally restricted for legal and enforcement fund (note 6)	Unrestricted	2012 Total	2011 Total
Net assets - beginning of year	$ 63,134	$ 200,000	$ 193,752	$ 456,886	$ 453,610
Excess of revenues over expenses	-	-	72,623	72,623	3,276
Purchase of capital assets	5,834	-	(5,834)	-	-
Amortization of capital assets	(24,633)	-	24,633	-	-
Net assets - end of year	$ 44,335	$ 200,000	$ 285,174	$ 529,509	$ 456,886

The accompanying notes
form an integral part of
these financial statements

Statement of Operations

For the year ended
March 31, 2012

	2012	2011
Revenues		
Membership fees	$ 133,500	$ 122,000
Bottle fees	808,900	755,421
Approval fees	401,541	383,901
Interest income	9,274	8,462
Other income	19,085	15,540
	1,372,300	1,285,324
Expenses		
Salaries and benefits	364,083	354,006
Contracted services	18,020	12,640
Public education	250,000	250,000
Approvals	437,536	449,869
Quality assurance and inspection	18,138	17,321
Strategic planning	-	11,345
Export development and trade	1,140	906
Weather monitoring	4,000	4,000
Meetings	8,268	5,539
Travel	5,489	3,853
Rent and occupancy	38,400	38,400
Office and general	23,861	18,262
Printing and mailing	9,624	10,500
Telephone and communications	7,253	6,938
Insurance	22,106	29,373
Professional services	67,126	45,936
Amortization	24,633	23,160
	1,299,677	1,282,048
Excess of revenues over expenses	$ 72,623	$ 3,276

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

For the year ended
March 31, 2012

	2012	2011
Cash flows from operating activities		
Excess of revenues over expenses	$ 72,623	$ 3,276
Non-cash items:		
Amortization	24,633	23,160
Interest capitalized on investments	(9,167)	(8,319)
Changes in non-cash working capital		
Accounts receivable	(26,137)	12,519
Prepaid expenses	(611)	(615)
Accounts payable and accruals	(3,903)	39,675
Deferred revenue	10,495	(473)
	67,933	69,223
Cash flows from investing activities		
Purchase of investments	(353,461)	(200,623)
Proceeds from disposal of investments	223,461	200,623
Purchase of capital assets	(5,834)	(10,700)
	(135,834)	(10,700)
Cash flows from financing activities	-	-
Increase (decrease) in cash	(67,901)	58,523
Cash - beginning of year	261,089	202,566
Cash - end of year	$ 193,188	$ 261,089

The accompanying notes form an integral part of these financial statements

Notes to Financial Statements

March 31, 2012

1. Purpose and legal form of the organization

Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

2. Significant accounting policies

Revenue recognition

Vintners Quality Alliance follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

Investments

Investments consist of fixed income term deposits whose term to maturity is greater than three months from the date of acquisition. Fixed income investments maturing within twelve months from year-end are classified as current.

The investments are classified as held to maturity and are recorded at amortized cost as it is management's primary objective to hold investments to maturity.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment	20%
Computer software	20%
Office furniture and equipment	20%

Notes to Financial Statements

2. Significant accounting policies (continued)

Contributed materials and services

The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the organization's designation of such instruments.

Cash
Cash is classified as held for trading, which is measured at fair value. Any fair value fluctuations are included in income.

Investments
Investments are classified as held to maturity, which are measured at amortized cost using the effective interest rate method.

Accounts receivable
Accounts receivable are classified as loans and receivables, which are measured at amortized cost using the effective interest rate method.

Accounts payable and accruals
Accounts payable and accruals are classified as other liabilities, which are measured at amortized cost using the effective interest rate method.

Effective interest rate method
The organization uses the effective interest rate method to recognize interest income or expense for financial instruments.

Notes to Financial Statements

March 31, 2012

3. Investments

	Face value	Amortized Cost
CIBC GIC - 1.85%, maturing April 16, 2012	$ 100,774	$ 102,557
CIBC GIC - 1.20%, maturing July 23, 2012	122,687	123,701
CIBC GIC - 2.20%, maturing October 15, 2012	100,500	103,728
CIBC GIC - 0.90%, maturing November 2, 2012	50,000	50,184
CIBC GIC - 2.45%, maturing April 29, 2013	80,000	81,799
	453,961	461,969
Less: portion maturing within one year of the year-end date	373,961	380,170
Classified as long-term	80,000	81,799

At March 31, 2011, investments at face value and amortized cost were $309,196 and $322,801, respectively.

4. Capital assets

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Computer equipment	$ 20,923	$ 17,882	$ 3,041	$ 4,941
Computer software	109,662	68,511	41,151	57,771
Office furniture and equipment	8,637	8,495	142	422
	$ 139,222	$ 94,888	$ 44,334	$ 63,134

5. Deferred revenue

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

6. Net assets internally restricted for legal and enforcement fund

Net assets of $200,000 have been restricted for a specific purpose. They may be used only for enforcing adherence to the regulations of the Vintners Quality Alliance Act.

Notes to Financial Statements

March 31, 2012

7. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that Vintners Quality Alliance Ontario would receive or pay to settle a financial asset or financial liability at the reporting date.

The carrying values of cash, investments, accounts receivable and accounts payable approximate their fair values due to their liquidity.

Risk management

Risk management is incorporated into Vintners Quality Alliance Ontario day to day management activities and an annual review of risks is completed by the Board.

Vintners Quality Alliance Ontario has exposure to the following risk associated with its financial instruments.

Credit risk
The organization maintains cash and investments, with financial institutions, which are in excess of amounts insured by the Canada Deposit Insurance Corporation (CDIC) and the Ontario Deposit Insurance Corporation (ODIC). Management monitors the soundness of these institutions and considers the organization's risk to be negligible.

8. Commitments

VQA Ontario has verbally committed to renew an agreement with the Wine Council of Ontario to provide funding in support of activities to promote the awareness, understanding and use of the VQA appellations in the amount of $250,000, for the next fiscal year.

The organization has a 5 year sub-lease with the LCBO effective April 1, 2008 for space it occupies. Rent over the remaining year is $38,400 per annum.

Terroir

"Terroir" describes a special set of conditions that contribute to the character of a wine. Individual terroir of a vineyard or a larger region is defined by the type of soil, bedrock, weather and growing conditions, topography, type of grapes planted and wine making influences. These factors combine to give each wine its own personality and often a recognizable connection to the local terroir.

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Steven Elphick's passion for wine and food translates itself into food, landscape and beverage photographs with a core of truth and beauty. He has been judging wine professionally since 1988.
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